

State of Florida



Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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JUN - 2 1998

4:15
FPSC - Records/Reporting

DATE: JUNE 4, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF WATER AND WASTEWATER (WILLIS, RENDELL, CASEY)
DIVISION OF LEGAL SERVICES (GERVASI)

RE: DOCKET NO. 980670 - INVESTIGATION OF POSSIBLE OVERTURNINGS
BY SANLANDO UTILITIES CORPORATION IN SEMINOLE COUNTY.
COUNTY: SEMINOLE

AGENDA: 06/16/98 - REGULAR AGENDA - DECISION ON SETTING REVENUES
SUBJECT TO REFUND - ON ISSUE NO. 1, INTERESTED PERSONS MAY
PARTICIPATE - ON ISSUES NOS. 2, 3, AND 4, PARTICIPATION IS
LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\WAW\WP\980670.RCM

CASE BACKGROUND

Sanlando Utilities Corporation (Sanlando or utility) is a Class A water and wastewater utility located in Altamonte Springs, Florida, which operates three water and two wastewater plants. According to the 1997 annual report, Sanlando serves approximately 9,872 water and 8,889 wastewater customers. The revenue collected in 1997 by the utility was \$2,034,193 for the water system and \$2,898,138 for the wastewater system. Sanlando's entire service area lies within the St. John's River Water Management District (SJRWMD), which has declared its entire district as a water use caution area.

By Order No. PSC-92-1356-FOF-WS, issued November 23, 1992, in Docket No. 900338-WS, the Commission approved a water conservation plan for Sanlando, which plan includes the construction of an effluent reuse system. As required by that order, Sanlando filed

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a petition for a limited proceeding to implement the water conservation plan on March 10, 1993 in Docket No. 930256-WS.

On December 10, 1993, the Commission issued Proposed Agency Action Order No. PSC-93-1771-FOF-WS, approving Sanlando's petition and requiring the utility to file a proposed charge for reclaimed water. Moreover, the Commission authorized increased gallonage charges in order to generate revenue for the conservation plan and required the utility to establish an escrow account to deposit those funds and any excess revenues.

Several timely protests were filed to Order No. PSC-93-1771-FOF-WS, and the Office of Public Counsel (OPC) and SJRWMD intervened in the docket. Consequently, the matter was set for formal hearing. The parties reached a settlement and submitted a proposed stipulation to the Commission for approval, which they later revised. The overall goal of the stipulation was to fund the construction of the proposed reuse facilities without incurring income tax liability, and thereby reduce the total cost of the project by approximately 40%. To accomplish this goal, the parties agreed to create a non-profit corporation which would own the reuse facilities and which would seek tax exempt status from the Internal Revenue Service (IRS). By Order No. PSC-95-0536-S-WS, issued April 28, 1995, the Commission approved the revised stipulation, with modifications, and ordered the docket to remain open pending the issuance of an IRS letter ruling on the parties' proposed plan. The Commission ordered the parties to report the results of the IRS ruling to the Commission, and authorized the parties to implement the terms of the stipulation if the ruling were favorable to the proposed plan. By Order No. PSC-95-1212-S-WS, issued October 2, 1995, the Commission modified Order No. PSC-95-0536-S-WS, striking a paragraph unrelated to the IRS ruling and substituting new language in its place, and otherwise affirmed the order. Sanlando requested a tax ruling by letter dated June 15, 1995, to the IRS. The IRS letter ruling, dated March 15, 1996, ruled that the monies received by the utility in connection with the reuse facility would not qualify as contributions to capital.

On September 10, 1997, the utility filed a Motion to Hold Docket No. 930256-WS in Abeyance Pending Commission's Ruling on Application for Approval of Reuse Project Plan and Increase for Wastewater Rates. By Order No. PSC-97-1460-PCO-WS, issued November 19, 1997, the Commission granted Sanlando's motion and ordered that Docket 930256-WS be held open in monitor status pending a ruling on the merits of Sanlando's application filed in Docket No. 971186-SU.

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By Order No. PSC-97-1337-PCO-SU, issued October 27, 1997, the Commission acknowledged intervention of OPC. By Order No. PSC-97-1582-PCO-SU, issued December 17, 1997, the Commission acknowledged intervention by SJRWMD.

A recommendation concerning Sanlando's reuse application was filed on April 30, 1998, and scheduled to be brought before the Commission at the May 12, 1998 agenda conference. In the recommendation, staff recommended the reuse project plan be approved, but that the monies to fund the project should come from existing revenues because of overearnings of \$219,142 (10.84% of total water revenues) in water revenues and \$301,883 (10.57% of total wastewater revenues) in wastewater revenues in 1996. Staff recommended that all overearnings be held in escrow.

On May 11, 1998, the utility sent a "Response to Commission staff's memorandum dated April 30, 1998", and requested a deferral of the recommendation for two months "to enable the utility time to respond more fully to the staff's recommendation and also provide additional information regarding financing requirements and other matters which the utility believes will be helpful to the Commission in deciding the relevant issues". The Chairman's office deferred the item on May 11, 1998.

The utility's 1997 annual report was received on May 1, 1998. Staff completed an expedited review of the annual report because of observations made in Docket No. 971186-SU. Based on staff's review of the utility's 1997 annual report, staff believes an investigation of overearnings should be initiated immediately with estimated overearnings held subject to refund.

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DISCUSSION OF ISSUES

ISSUE 1: Should the Commission initiate an overearnings investigation of Sanlando Utilities Corporation?

RECOMMENDATION: Yes, the Commission should initiate an investigation of the composition and level of water and wastewater rates to determine potential overearnings. Rate base should also be established since rate base was last established as of December 31, 1991 in Docket No. 900338-WS. (CASEY)

STAFF ANALYSIS: Based on a desk audit of the utility's 1997 annual report, along with a limited scope audit completed in Docket No. 971186-SU, staff believes that a full investigation of earnings of Sanlando's water and wastewater systems is appropriate. Staff's 1997 annual report review indicates that Sanlando's water system earned an achieved rate of return on equity of 18.76% and its wastewater system earned an achieved rate of return on equity of 48.25% in 1997. If the Commission approves this issue, staff will request a full audit of the utility's books for the test year ending December 31, 1997. Staff believes that water and wastewater rate base should also be set by the Commission since both were last set by the Commission as of December 31, 1991.

ISSUE 2: Should any amount of annual water and wastewater revenues be held subject to refund?

RECOMMENDATION: Yes, Sanlando should hold annual water revenues of \$106,536 and annual wastewater revenues of \$289,267 subject to refund. The following amounts are recommended:

	Test Year	Amount Subject	% Subject
	<u>Revenues</u>	<u>To Refund</u>	<u>To Refund</u>
Water	\$2,059,583	\$106,536	5.17%
Wastewater	\$2,934,945	\$289,267	9.86%

(CASEY)

STAFF ANALYSIS: According to staff's review of Sanlando's 1997 annual report, the utility achieved an 18.76% return on equity for water, and achieved a 48.25% return on equity for wastewater. In the utility's last rate proceeding by Order No. 23809, issued November 27, 1990, in Docket No. 900338-WS, the Commission approved an overall rate of return of 11.51% with a range of 11.27% to 11.75%, and established a rate of return on equity of 13.51% with a range of 12.51% to 14.51%.

Using the upper boundary of 14.51% for equity, and appropriate interest rates for other components in the capital structure, a 9.05% overall cost of capital is indicated. Additionally, our preliminary review suggests that the utility achieved an overall 38.54% return on equity in 1997.

Section 367.082 (5)(b), Florida Statutes, requires that adjustments consistent with those made in the last individual rate proceeding shall be made in arriving at the achieved rate of return of the utility. Additionally, the statute requires the annualization of any rate changes that occurred during the test period. Our recommendation reflects the appropriate adjustments, and the nature of such adjustments is outlined in the respective sections below.

RATE BASE

Working Capital

Section 367.082(5)(b)1, Florida Statutes, requires that, in calculating interim rates, adjustments be made consistent with

those in the utility's last rate proceeding. Consistent with the treatment allowed in Sanlando's last rate proceeding, by Order No. 23809, staff calculated working capital using the formula method. Based on staff's preliminary review and the use of the formula method, staff recommends a working capital allowance of \$201,131 for water and \$255,445 for wastewater.

Rate base for interim purposes, as adjusted by staff, is \$1,012,253 and \$2,071,497 for water and wastewater, respectively. Rate bases are shown in Schedules Nos. 1A and 1B, and adjustments to rate base are shown in Schedule No. 1C.

COST OF CAPITAL

In Order No. 23809, Sanlando's return on equity was established at 13.51%, with a range of 12.51% to 14.51%. Consistent with Section 367.082(2)(b), Florida Statutes, the appropriate rate of return on equity for interim refund purposes is calculated using the maximum of the range of the last authorized rate of return on equity. Using the high-end of the range to calculate any potential overearnings, staff has established an overall rate of return of 9.05% for interim purposes. (Schedule No. 2)

NET OPERATING INCOME

Operating Revenue

On or about December 5, 1997, the utility implemented a price index adjustment that increased water revenues by \$27,337 and wastewater revenues by \$39,630 on an annual basis. In accordance with the interim statute, the full revenue impact of that adjustment has been annualized and is reflected in an increase of \$25,390 to water revenues and \$36,807 to wastewater revenues.

Operation and Maintenance Expenses

Staff made the following adjustments to the utility's 1997 operation and maintenance expenses consistent with those made in the last individual rate proceeding:

Contractual Services - Legal - The utility recorded \$21,264 in water and \$65,008 in wastewater legal contractual services for 1997. During the limited scope audit of the utility's books in Docket No. 971186-SU, staff discovered that legal retainer fees from a related party did not show hours or hourly rates on the invoices, and most listed general services for a description. The NARUC Class "A" Accounting Instruction No. 2, General Records, states, in part, that "Each entry shall be supported by such

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detailed information as will permit a ready identification, analysis and verification of all facts relevant thereto."

By Order No. 23809, the Commission found that "In its response to the audit report, the utility listed many general areas of service provided by the attorney." Additionally, the Commission found that:

We are not persuaded by the utility's audit response. We were not provided with sufficient description of legal work performed, legal proceedings or any detail supporting the benefit derived by the utility. All utilities are held to the same requirement that expenses recovered through rates must be justified as reasonable and prudently incurred. Just because the utility incurred these amounts does not lend any support to the reasonableness or prudence thereof. The fact that the attorney is a related party requires an even greater degree of scrutiny to assure that expenses are incurred on an arm's-length basis.

Finally, the Commission placed the utility on notice that: "in future rate proceedings it must provide greater detail to justify contract or outside legal services." Order No. 23809 at 11.

For purposes of this interim recommendation, staff used the \$40,000 base figure approved by Order No. 23809 and indexed it up using the Commission approved yearly index figures to arrive at staff's recommended total contractual legal services figure of \$47,792.

Staff made an adjustment of (\$9,620) to water legal contractual services, and made an adjustment of (\$28,860) to wastewater legal contractual services using the same percentage allocation of legal costs as in the utility's 1997 annual report. Staff recommends \$11,644 of water and \$36,148 of wastewater legal contractual services.

Contractual Services - Management Fees - The utility's 1997 annual report showed \$121,857 in water and \$109,743 in wastewater management contractual services.

These amounts included \$125,000 of director's fees. The utility had five directors who were paid \$25,000 each during 1997. In the utility's last rate proceeding (Docket No. 900338-WS), the utility was allowed director's fees of \$6,500 each, split \$3,510 for water, and \$2,993 for wastewater. In that docket the Commission indexed the director's fees from the last rate case by the index growth. Staff used the same methodology and indexed up

these figures using the Commission approved yearly index figures to calculate director's fees of \$7,932, split \$4,230 to water and \$3,702 to wastewater for each director for purposes of this interim proceeding. Staff made an adjustment of (\$45,512) to water and (\$39,828) to wastewater to reduce total director's fees to \$21,151 for the water system and \$18,509 for the wastewater system for this interim proceeding. This is a total reduction of \$85,340 to director's fees.

The utility's annual report included \$81,600 in consulting fees charged by Greater Construction Corporation, an affiliated company. The consulting fee was allocated \$43,656 to water and \$37,944 to wastewater based on the same methodology used by the utility in its 1996 annual report. In Docket No. 900338-WS, the Commission allowed a total consulting fee of \$25,000 for Greater Construction Corporation. Staff indexed up the previously approved consulting amount for Greater Construction Corporation using the Commission approved yearly index figures, and made an adjustment of (\$27,339) to the water and (\$23,761) to wastewater for a total Greater Construction consulting fee of \$30,500. Staff recommends a Greater Construction consulting fee allocation of \$16,317 for water and \$14,183 for wastewater.

Staff recommends \$49,006 in water and \$46,154 in wastewater management contractual services.

Operation and Maintenance Expense Summary

The above adjustments to operation and maintenance expenses total (\$82,471) for water and (\$92,449) for wastewater. Staff recommends operation and maintenance expenses of \$1,609,049 for water and \$2,043,559 for wastewater for this interim proceeding.

Taxes Other Than Income

The 1997 utility annual report shows \$166,208 in water and \$245,852 in wastewater taxes other than income. Staff made adjustments of \$1,143 to water and \$1,656 to wastewater to reflect regulatory assessment fees on staff's recommended test year increase in revenue.

Staff recommends test year taxes other than income of \$167,351 for water and \$247,508 for wastewater.

Income Taxes

The utility recorded income taxes of (\$774) for water and \$87,881 for wastewater in its 1997 annual report. Based on staff's adjustments which increased operating income, staff made an

adjustment of \$49,197 to water and \$36,818 to wastewater to reflect income taxes on staff's recommended test year figures.

Test Year Net Operating Income

The above adjustments result in operating revenues of \$2,059,583 for water and \$2,934,945 for wastewater, with operating expenses of \$1,904,483 for water and \$2,575,106 for wastewater, resulting in net operating incomes of \$155,100 for water and \$359,839 for wastewater.

REVENUE REQUIREMENT

As shown above, water operating revenues total \$2,059,583 for water and \$2,934,945 for wastewater for the test year. This represents a 15.32% overall rate of return for water and a 17.37% overall rate of return for wastewater. Staff's calculation of revenue requirements for purposes of interim rates indicates a revenue requirement of \$1,953,047 for water, which represents a \$106,536 (5.17%) decrease in revenue, and a revenue requirement of \$2,645,267 for wastewater, which represents a \$289,267 (9.86%) decrease in revenue. This would allow the utility the opportunity to recover its expenses and earn staff's recommended return of 9.05% on its investment. Therefore, the following amounts should be held subject to refund:

	Test Year	Amount Subject To Refund	% Subject To Refund
	<u>Revenues</u>	<u>To Refund</u>	<u>To Refund</u>
Water	\$2,059,583	\$106,536	5.17%
Wastewater	\$2,934,945	\$289,267	9.86%

ISSUE 3: What is the appropriate security to guarantee the amount subject to refund?

RECOMMENDATION: A corporate undertaking in the amount of \$241,151, guaranteed by Sanlando, should be accepted as security. Further, an accurate and detailed account of all monies received should be kept by the utility. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code. (MAUREY, CASEY)

STAFF ANALYSIS: Pursuant to Section 367.082, Florida Statutes, the utility is authorized to continue collecting the previously authorized rates. As recommended in Issue No. 2, the amount of potential overearnings in the water system is \$106,536, and the amount of potential overearnings in the wastewater system is \$289,267 on an annual basis. On December 5, 1997, the utility implemented a price index of \$27,337 for the water system, and \$39,630 for the wastewater system.

Pursuant to Section 367.081(4)(d), Florida Statutes, the Commission may order a utility to refund, with interest, a price index and/or pass-through rate adjustment if, within 15 months after the filing of a utility's annual report, the Commission finds that the utility exceeded the range of its last authorized rate of return on equity after an index and/or pass-through rate adjustment was implemented within the year for which the annual report was filed or was implemented in the preceding year. The utility's 1997 annual report was filed on April 30, 1998. Consequently, fifteen months from that date is July 30, 1999.

As mentioned above, the utility implemented a price index of \$27,337 for water and \$39,630 for wastewater on December 5, 1997. The 1997 index revenues which are already subject to refund would be \$1,947 for water and \$2,823 for wastewater. The statute also provides that indexes implemented in the previous year of the annual report which caused the utility to overearn in the year of the annual report are also subject to refund. The utility implemented a price index of \$32,048 for water and \$45,157 for wastewater on September 8, 1996. This caused the utility to overearn by those amounts in 1997. Therefore, an additional \$32,048 of water revenues and \$45,157 of wastewater revenues should also be already subject to refund as shown on next page.

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	<u>WATER</u>	<u>WASTEWATER</u>
Amount of potential 1997 overearnings	\$106,536	\$289,267
1997 overearnings from 12/05/97 index	(1,947)	(2,823)
1997 overearnings from 09/08/96 index	<u>(32,048)</u>	<u>(45,157)</u>
Incremental to hold subject to refund	\$ 72,541	\$241,287

Since \$33,995 of water revenue and \$47,980 of wastewater revenue is already subject to refund, only \$72,541 in annual water revenues, and \$241,287 in annual wastewater revenues should be collected under guarantee, subject to refund with interest. Assuming a 9-month time frame, the potential refund amount is \$235,371. Interest, calculated in accordance with Rule 25-30.360, Florida Administrative Code, is \$9,780, making the total \$241,151, which should be collected under guarantee, subject to refund with interest.

The Division of Auditing and Financial Analysis has advised that a corporate undertaking signed by Sanlando would be sufficient to protect the potential refund. Therefore, staff recommends that the utility be allowed to provide a corporate undertaking in the amount of \$241,151 as guarantee of any potential refund of wastewater revenues collected under the interim conditions.

Further, an accurate and detailed account of all monies received should be kept by the utility. By no later than the twentieth (20th) day of each month, the utility should file a report showing the amount of revenues collected each month subject to refund. Should a refund be required, the refund should be with interest and undertaken in accordance with Rule 25-30.360, Florida Administrative Code.

In no instance should maintenance and administrative costs associated with any refund be borne by the customers. These costs are the responsibility of, and should be borne by the utility.

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ISSUE 4: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open pending the investigation of the utility's earnings for 1997. (CASEY, GERVASI)

STAFF ANALYSIS: Based on the utility's 1997 annual report, and staff adjustments made consistent with those made in the last individual rate proceeding, staff recommends that the utility's water system is overearning by \$106,536, and its wastewater system is overearning by \$289,267. If the Commission approves Issue No. 1 of this recommendation, staff will request a full audit of the utility's books for the year ending December 31, 1997. This docket should remain open pending the results of the staff audit and final recommendation for utility rates.

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER RATE BASE

SCHEDULE NO. 1 A
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1997 ANN.RPT	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
LAND AND LAND RIGHTS	\$ 116,578	\$ 0	\$ 116,578
UTILITY PLANT IN SERVICE	12,095,967	0	12,095,967
NON-USED AND USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(5,554,127)	0	(5,554,127)
CIAC	(10,330,056)	0	(10,330,056)
ACCUMULATED AMORTIZATION OF CIAC	4,482,760	0	4,482,760
WORKING CAPITAL	211,440	(10,309) A	201,131
WATER RATE BASE	\$ 1,022,562	\$ (10,309)	\$ 1,012,253

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER RATE BASE

SCHEDULE NO. 1 B
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1997 ANN.RPT	STAFF ADJUST. TO UTIL. BAL.	BALANCE PER STAFF
LAND AND LAND RIGHTS	\$ 202,552	\$ 0	\$ 202,552
UTILITY PLANT IN SERVICE	13,510,739	0	13,510,739
NON-USED AND USEFUL PLANT	0	0	0
ACCUMULATED DEPRECIATION	(7,079,969)	0	(7,079,969)
CIAC	(10,405,022)	0	(10,405,022)
ACCUMULATED AMORTIZATION OF CIAC	5,587,752	0	5,587,752
WORKING CAPITAL	267,001	(11,556) A	255,445
WASTEWATER RATE BASE	\$ 2,083,053	\$ (11,556)	\$ 2,071,497

SANLANDO UTILITIES CORPORATION
TEST YEAR ENDING DECEMBER 31, 1997
ADJUSTMENTS TO RATE BASE

SCHEDULE NO. 1 C
DOCKET NO. 980670-WS

A. <u>WORKING CAPITAL ALLOWANCE</u>	<u>WATER</u>	<u>WASTEWATER</u>
1. To adjust for 1/8 of staff calculated O & M.	\$ <u>(10,309)</u>	\$ <u>(11,556)</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF CAPITAL STRUCTURE

SCHEDULE NO. 2
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1997 ANN.RPT	SPECIFIC ADJUSTMENTS	PRO-RATA ADJUSTMENTS	ADJUSTED BALANCE	RATIO	COST RATE	WEIGHTED COST
COMMON EQUITY	\$ 482,945	\$ 0	\$ (130,165)	\$ 352,780	11.44%	14.51%	1.66%
LONG TERM DEBT	3,216,075	0	(866,809)	2,349,266	76.18%	8.43%	6.42%
NOTES PAYABLE	351,061	0	(94,619)	256,442	8.32%	8.75%	0.73%
CUSTOMER DEPOSITS	171,481	0	(46,218)	125,263	4.06%	6.00%	0.24%
INVESTMENT TAX CREDITS	0	0	0	0	0.00%	0.00%	0.00%
DEFERRED INCOME TAXES	0	0	0	0	0.00%	0.00%	0.00%
TOTAL	\$ 4,221,562	\$ 0	\$ (1,137,812)	\$ 3,083,750	100.00%		9.05%

RANGE OF REASONABLENESS

	LOW	HIGH
RETURN ON EQUITY	12.51%	14.51%
OVERALL RATE OF RETURN	8.82%	9.05%

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WATER OPERATING INCOME

SCHEDULE NO. 3 A
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1997 ANN.RPT	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ <u>2,034,193</u>	\$ <u>25,390</u> A	\$ <u>2,059,583</u>	\$ <u>(106,536)</u> E -5.17%	\$ <u>1,953,047</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	1,691,520	(82,471) B	1,609,049	0	1,609,049
DEPRECIATION (NET)	79,660	0	79,660	0	79,660
AMORTIZATION (OTHER)	0	0	0	0	0
TAXES OTHER THAN INCOME	166,208	1,143 C	167,351	(4,794) F	162,556
INCOME TAXES	<u>(774)</u>	<u>49,197</u> D	<u>48,423</u>	<u>(38,285)</u> G	<u>10,138</u>
TOTAL OPERATING EXPENSES	\$ <u>1,936,614</u>	\$ <u>(32,131)</u>	\$ <u>1,904,483</u>	\$ <u>(43,080)</u>	\$ <u>1,861,403</u>
OPERATING INCOME/(LOSS)	\$ <u>97,579</u>		\$ <u>155,100</u>		\$ <u>91,644</u>
WATER RATE BASE	\$ <u>1,022,562</u>		\$ <u>1,012,253</u>		\$ <u>1,012,253</u>
RATE OF RETURN	<u>9.54%</u>		<u>15.32%</u>		<u>9.05%</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 SCHEDULE OF WASTEWATER OPERATING INCOME

SCHEDULE NO. 3 B
 DOCKET NO. 980670-WS

	BALANCE PER UTILITY 1996 ANN.RPT	STAFF ADJ. TO UTILITY	STAFF ADJUSTED TEST YEAR	ADJUST. FOR INCREASE/ (DECREASE)	TOTAL PER STAFF
OPERATING REVENUES	\$ <u>2,898,138</u>	\$ <u>36,807</u> A	\$ <u>2,934,945</u>	\$ <u>(289,267)</u> E -9.86%	\$ <u>2,645,678</u>
OPERATING EXPENSES:					
OPERATION AND MAINTENANCE	2,136,008	(92,449) B	2,043,559	0	2,043,559
DEPRECIATION	159,340	0	159,340	0	159,340
AMORTIZATION	0	0	0	0	0
TAXES OTHER THAN INCOME	245,852	1,656 C	247,508	(13,017) F	234,491
INCOME TAXES	<u>87,881</u>	<u>36,818</u> D	<u>124,699</u>	<u>(103,953)</u> G	<u>20,746</u>
TOTAL OPERATING EXPENSES	\$ <u>2,629,081</u>	\$ <u>(53,975)</u>	\$ <u>2,575,106</u>	\$ <u>(116,970)</u>	\$ <u>2,458,136</u>
OPERATING INCOME/(LOSS)	\$ <u>269,057</u>		\$ <u>359,839</u>		\$ <u>187,542</u>
WASTEWATER RATE BASE	\$ <u>2,083,053</u>		\$ <u>2,071,497</u>		\$ <u>2,071,497</u>
OVERALL RATE OF RETURN	<u>12.92%</u>		<u>17.37%</u>		<u>9.05%</u>

SANLANDO UTILITIES CORPORATION
 TEST YEAR ENDING DECEMBER 31, 1997
 ADJUSTMENTS TO OPERATING INCOME

SCHEDULE NO. 3 C
 DOCKET NO. 980670-WS

	<u>WATER</u>	<u>WASTEWATER</u>
A. <u>OPERATING INCOME</u>		
1. To annualize price index effective 12/05/97.	\$ <u>25,390</u>	\$ <u>36,807</u>
B. <u>OPERATION AND MAINTENANCE EXPENSES</u>		
1. Contractual Services - Legal		
a. To reduce legal fees to staff recommended level.	\$ <u>(9,620)</u>	\$ <u>(28,860)</u>
2. Contractual Services - Mgt. Fees		
a. To reduce directors fees to staff recommended level.	\$ (45,512)	\$ (39,828)
b. To reduce Greater Construction consulting fees.	<u>(27,339)</u>	<u>(23,761)</u>
	\$ <u>(72,851)</u>	\$ <u>(63,589)</u>
TOTAL O & M ADJUSTMENTS	\$ <u>(82,471)</u>	\$ <u>(92,449)</u>
C. <u>TAXES OTHER THAN INCOME</u>		
1. To reflect regulatory assessment fees on revenue adjustment.	\$ <u>1,143</u>	\$ <u>1,656</u>
D. <u>INCOME TAXES</u>		
1. To adjust income taxes on test year operating income.	\$ <u>49,197</u>	\$ <u>36,818</u>
E. <u>OPERATING REVENUES</u>		
1. To reflect staff's recommended decrease in revenue.	\$ <u>(106,536)</u>	\$ <u>(289,267)</u>
F. <u>TAXES OTHER THAN INCOME</u>		
1. To reflect regulatory assessment fee associated with recommended revenue requirement.	\$ <u>(4,794)</u>	\$ <u>(13,017)</u>
G. <u>INCOME TAXES</u>		
1. To adjust for recommended revenue requirement.	\$ <u>(38,285)</u>	\$ <u>(103,953)</u>